

## En Banc Federal Circuit Renders Two Important Patent Decisions; Clarifying Standards for Patentability and Design Patent Infringement

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### Patentability of Process Claims Must Be Determined By Machine-or-Transformation Test

*In re Bilski*, Appeal No. 2007-1130 (Fed. Cir. October 30, 2008)

In a closely watched case on the threshold inquiry of patentability, the U.S. Court of Appeals for the Federal Circuit recently issued a 9-3 *en banc* decision clarifying the standards applicable in determining whether a claimed method qualifies as a patentable "process" under 35 U.S.C. § 101. After reviewing U.S. Supreme Court precedent, the Federal Circuit set forth the machine-or-transformation test as the "governing test for determining patent eligibility of a process." Under this test, a process (or method) claim is patentable if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. The Federal Circuit was also careful to leave open the possibility that the test could be modified as new developments in technology and science emerge.

Applicants Bernard L. Bilski and Rand A. Warsaw filed a patent application directed to a method of hedging risk in commodities trading. The examiner at the Patent Office rejected all of the applicants' claims under 35 U.S.C. §101 as being drawn to unpatentable subject matter. In rejecting the method claims, the examiner noted the claims were a manipulation of an abstract idea that was not limited to implementation on any specific computer or apparatus and therefore was not directed to the "technological arts."

On appeal, the Board of Patent Appeals and Interferences ("Appeal Board") found the Patent Office erred in its rejection to the extent that it required the invention to relate to a specific apparatus or fall within the "technological arts." The Appeal Board stated that the proper test was whether the process involved a "transformation of physical subject matter from one state to another," or produced a "useful, concrete and tangible result." Although the Appeal Board disagreed with the patent examiner's analysis, it ultimately agreed that Applicants' claims were unpatentable because the method did not involve a physical transformation or produce a useful, concrete and tangible result.

The applicants appealed again, this time to the Federal Circuit. The appeal was initially argued before a standard three-judge panel on October 7, 2007. Before the panel could reach a decision, however, the court decided to review the decision *en banc* (before the entire Federal Circuit), so as to clarify the rules governing patentable subject matter.

In the October 30, 2008, decision, the Federal Circuit began by identifying the question of patent-eligible subject matter under 35 U.S.C. §101 as a threshold inquiry, and that any claim failing the requirements of §101 must be rejected even if the claim meets all other legal requirements of patentability. Section 101 states "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

While the statute recites four categories of patent-eligible subject matter, Applicants' claims were not directed to a machine, manufacture, or composition of matter. Rather, the case turned on an interpretation of the word "process" in the context of §101. Although the term "process" is ordinarily broad in meaning and could extend to any series of actions or operations, the Federal Circuit recognized Supreme Court precedent holding the meaning of "process" as used in §101 to be narrower than its ordinary meaning. The Supreme Court sought to distinguish between claims that seek to preempt the use of fundamental principles, such as laws of nature, natural phenomena and abstract ideas, or mental processes alone that are not directed to patent-eligible subject matter, and a patent-eligible process claim that is "tailored narrowly enough to encompass only a particular application of a fundamental principle."

To determine whether the claimed method of hedging risk was a patentable process, the Federal Circuit relied on the test formulated by the Supreme Court in *Gottschalk v. Benson*, a 1972 case rejecting claims to a pure mathematical algorithm. Under this machine-or-transformation test, a process claim is patentable if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. Although an abstract idea, mental act or algorithm may be one step within a patentable process, claims directed to such fundamental principles themselves will not survive the machine-or-transformation test.

While adopting the machine-or-transformation test, the Federal Circuit also explicitly overturned several other tests that had been used previously by the Federal Circuit and the district courts. For instance, the "useful, concrete and tangible result" test applied in the 1998 *State Street Bank v. Signature Financial Group* case recognizing business methods as patentable—and applied by the Appeal Board—was held to be inadequate. The Federal Circuit also dismissed the "technological arts" test applied by the patent examiner. However, the Federal Circuit did reaffirm the ruling in *State Street* that business method claims were "subject to the same legal requirements for patentability as applied to any other process or method" and rejected calls for a categorical exclusions beyond the fundamental principles identified by the Supreme Court.

In dissent, Federal Circuit Judges Newman and Rader expressed concern with the court's departure from established precedent, arguing that the new standard goes too far and may draw into question the validity of existing patents. Steven Friedman, a partner from Duane Morris who represented Signature Financial Group in the *State Street Bank* case echoed some of the same concerns: "The court appears to have moved away from the broad construction of section 101 that was articulated in *State Street*; a move that may have far-reaching consequences."

Although the Federal Circuit described the machine-or-transformation test as the definitive and sole test for determining patentability under §101, the decision acknowledged that future developments in technology "may present difficult challenges to the machine-or-transformation test." Rather than attempt to formulate a more enduring standard, the Federal Circuit extended an open invitation to the Supreme Court to update or modify the standard as necessary to accommodate emerging technologies.

The Federal Circuit also identified several other important aspects of §101 jurisprudence recognized by the Supreme Court. First, the court found that field-of-use limitations were "generally insufficient to render an otherwise ineligible process claim patent-eligible." The Federal Circuit also confirmed that "insignificant extra-solution activity" could not transform an unpatentable principle into a patentable process. The Federal Circuit identified the issue of whether a claim is novel and non-obvious as irrelevant under §101 and concluded the "new and useful" language in §101 did not create an additional novelty requirement. Rather, such considerations are governed by 35 U.S.C. §102 (novelty) and §103 (non-obviousness). Finally, the Federal Circuit confirmed that the machine-or-transformation test is applied to the claim as a whole, rather than to individual steps within a method.

Importantly, the Federal Circuit also recognized that the raw materials of many information-age processes are electronic signals and electronically manipulated data and that transformation of the underlying physical object that the electronic data represents is not required to satisfy the transformation test. Rather, the court held that the electronic transformation of data itself could be patentable "so long as the claimed process is limited to a practical application of a fundamental principle to transform specific data, and the claim is limited to a visual depiction that represents specific physical objects or substances."

Despite its rejection of the patentability test used by the Appeal Board, the Federal Circuit affirmed the Appeal Board's decision that Applicants' claims were not patentable. The court explained that Applicants' claims did not satisfy the machine-or transformation test because the process did not transform any article into a different state or thing. The Federal Circuit held that the purported transformations of legal obligations and business risks cannot meet the test because it did not involve the transformation of any physical objects or substances, or an electronic signal that is representative of any physical object or substance.

While the decision in *In re Bilski* provides important guidance for determining the patentability of process claims, it does raise significant concerns, including whether the ruling will impact the validity of numerous patents granted under one of the overruled tests. These concerns must wait to be explored in future cases. With respect to future or pending patent applications, patent prosecutors will need to ensure that process claims submitted to the Patent Office are tied to a machine or apparatus, or recite steps that effect a transformation of one article into another.

## **Federal Circuit Streamlines Standard for Determining Design Patent Infringement**

*Egyptian Goddess, Inc. v. Swisa, Inc.*, Appeal No. 2006-1562 (Fed. Cir. September 22, 2008)

In a unanimous en banc decision, the U.S. Court of Appeals for the Federal Circuit streamlined the standard for determining infringement of a design patent. Previously, the Federal Circuit employed a two-pronged analysis in determining whether a design patent has been infringed. The design patent holder had to prove both (1) that the accused design is "substantially similar" to the patented design under the "ordinary observer" test and (2) that the accused design contains "substantially the same points of novelty that distinguished the patented design from the prior art." In the September 22, 2008, ruling, the court held the point of novelty test should no longer be used in the analysis of a claim design patent infringement, and that the sole test should be the ordinary observer test, which the court found already takes into consideration the prior art when properly applied.

Egyptian Goddess sued Swisa in the Northern District of Texas alleging design patent infringement. As opposed to utility patents that protect inventions defined by written claims found to be useful, novel and non-obvious, design patents protect the ornamental nonfunctional design of an object. Egyptian Goddess' design patent consisted of a series of drawings depicting the design for a nail buffer, constructed as a four-sided hollow tube with open corners and pads affixed to only three sides, whereas the accused Swisa nail buffer also had a four-sided hollow tube with open corners, but with pads affixed to all four sides. The district court granted Swisa's motion for summary judgment of noninfringement upon concluding the Swisa design did not incorporate the "point of novelty" of the D'389 patent - specifically, a fourth side without a pad.

Egyptian Goddess appealed to the Federal Circuit, where a three-judge panel agreed with the district court that there was no issue of material fact as to whether the Swisa product appropriated the point of novelty of the claimed design. In

reaching the conclusion, the Federal Circuit panel stated that the point of novelty could be the combination of individually known design elements if the combination was a "non-trivial advance over the prior art." The Federal Circuit granted rehearing *en banc* and asked the parties to address several issues, including whether the point of novelty test should continue to be used as a test for design patent infringement.

In reconsidering the role of the point of novelty test in design patent law, a unanimous *en banc* Federal Circuit noted that the starting point for any discussion of design patent law is the 1872 Supreme Court decision *Gorham Co. v. White* in which the Supreme Court set forth what is referred to as the "ordinary observer" test, specifically: "[I]f in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other."

However, the *en banc* court also noted its own precedent that can be traced to the 1984 Federal Circuit decision in *Litton Systems, Inc. v. Whirlpool Corp.* In *Litton Systems*, the Federal Circuit concluded that proof of similarity under the ordinary observer test was not enough to establish design patent infringement and proceeded to set forth an additional requirement that an accused design also appropriate the novelty of the claimed design in order to be found infringing. Under this point of novelty test set forth in *Litton Systems*, "the accused device must appropriate the novelty in the patented device which distinguishes it from the prior art." In cases after *Litton Systems*, a finding of design patent infringement depended up on the design patent holder satisfying both the point of novelty test and the ordinary observer test.

Although Swisa argued on appeal that the point of novelty test was adopted in the 1893 Supreme Court decision in *Smith v. Whitman Saddle Co.*, the Federal Circuit disagreed, finding that the Supreme Court did not adopt a separate point of novelty test in *Whitman Saddle*. Rather, the Federal Circuit concluded the *Whitman Saddle* decision simply emphasized the importance of conducting the ordinary observer test "in light of the prior art." Similarly, while acknowledging *Litton Systems* for the proposition that the point of novelty test is separate, an *en banc* Federal Circuit now concluded that its own ruling in *Litton Systems* and other design predecessors are "more properly read as applying a version of the ordinary observer test in which the ordinary observer is deemed to view the differences between the patented design and the accused product in the context of the prior art."

In rejecting the point of novelty test, the *en banc* court observed the difficulty in applying the point of novelty test in cases where the design patent involves numerous features that could arguably be points of novelty, or where the patented design consists of a combination of features that individually may be found in the prior art, but not in combination. In cases where several different features can be argued as points of novelty, there is a risk a court may improperly focus on whether the accused design copied a particular feature as opposed to focusing on the proper issue, that is whether the claim as a whole has been copied. The ordinary observer test, unlike the point of novelty test, did not present the risk of "assigning exaggerated importance to small differences between the claimed and accused designs relating to an insignificant feature simply because that feature can be characterized as a point of novelty" in the context of litigation. The court concluded that applying the ordinary observer test "through the eyes of an observer familiar with the prior art" not only avoids these problems but also equally serves the purpose of the point of novelty test, that purpose being "to focus on those aspects of a design which render the design different from prior art designs."

The Federal Circuit also considered the role of claim construction in design patent cases, holding that it is within a district court's discretion to determine the level of verbal detail to provide a jury in describing the claimed design. However, in recognition of the difficulties in describing a design in words and the risks of placing undue emphasis on particular features as opposed to the design as a whole, the unanimous court stated "the preferable course ordinarily will be for a district court not to attempt to 'construe' a design patent by providing a detailed verbal description of the claimed design."

Upon applying the ordinary observer test in comparing the asserted design patent to the accused nail buffer, the Federal Circuit found that no reasonable fact-finder could conclude that Swisa infringed the patented design in light of the similarities between the two prior art nail buffers and the accused nail buffer. In so ruling, the Federal Circuit gave little weight to Egyptian Goddess' expert testimony since the expert failed to explain why an ordinary observer would have considered the accused design closer to the patented design as compared to the prior art designs.

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